

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION

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POSTAL RATE AND FEE CHANGES, 1997

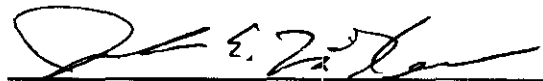
DOCKET NO. R97-1

**ANSWERS OF UNITED PARCEL SERVICE WITNESS
RALPH L. LUCIANI TO INTERROGATORIES OF
NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.
(NDMS/UPS-T4-1 AND NDMS/UPS-T2-1
REDIRECTED FROM WITNESS SELICK)**

(February 11, 1998)

Pursuant to the Commission's Rules of Practice, United Parcel Service ("UPS") hereby serves and files the responses of UPS witness Ralph L. Luciani to interrogatories of Nashua Photo Inc., District Photo Inc., Mystic Color Lab, and Seattle FilmWorks, Inc. to Mr. Luciani (NDMS/UPS-T4-1) and to Mr. Sellick (NDMS/UPS-T2-1).

Respectfully submitted,



John E. McKeever
Attorney for United Parcel Service

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Of Counsel.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS LUCIANI TO INTERROGATORY OF
NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.**

NDMS/UPS-T4-1. Please refer to the portion of your testimony proposing a surcharge on Priority Mail parcels (UPS-T-4, pages 42-45).

a. Where in your testimony do you describe which pieces of Priority Mail would be subject to UPS' proposed surcharge?

b. i. Are you proposing that the parcel surcharge apply in all Priority Mail rate categories, zoned and unzoned, at all weights?

ii. If so, please explain why it makes sense to impose a \$0.10 surcharge on, for example, a 50-, 60- or 70-pound Priority Mail parcel, given the fact that there are no 50-, 60- or 70-pound flats?

c. Did you consider the possibility of eliminating the 4-cents-per-pound charge built into the rate schedule (as discussed in your testimony at page 44) and instead imposing a 20 cent surcharge on all Priority Mail parcels?

i. If not, why not?

ii. If so, why did you not recommend it?

d. Would you agree that the 4-cents-per-pound charge fully compensates for the extra cost of parcels that weigh 5 pounds or more? Please explain fully any answer which is not unqualifiedly in the affirmative.

Response to NDMS/UPS-T4-1. (a) All Priority Mail parcels would be assessed the surcharge that I recommend.

(b) Yes. The surcharge is based on the fact that the parcel shape is more expensive to process than the flat shape. As such, it applies to all parcels regardless of other characteristics.

(c) I considered this possibility, but chose not to recommend it because it would require breaking with the traditional practice of assigning 2 cents per

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pound for non-transportation weighted related costs in Priority Mail, Parcel Post, Express Mail, and other subclasses.

(d) No. The 10.2 cent difference between the parcel shape and the flat shape that I identify already takes into account the impact of the non-transportation weight-related charge. With the surcharge taken into account, the weight-related non-transportation charge assigned to any particular parcel or any particular flat would be solely due to weight.

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NDMS/UPS-T2-1. Please refer to your testimony concerning Priority Mail cost differences by shape (UPS-T-2, starting at page 18, line 4).

a. Please confirm that, if a surcharge were imposed on Priority Mail parcels, the purported "extra cost" of handling parcels would be subtracted from the total nontransportation cost when calculating the base unit cost, leading to a lower base unit cost for all Priority Mail. If you do not confirm, please explain how these "extra costs" could be simultaneously (i) passed through in the form of a surcharge on parcels and (ii) included in the base unit cost for all Priority Mail, including parcels.

b. i. Please confirm that, using the Postal Service attribution of mail processing costs, the estimated cost differential between flats and parcels is \$0.1265 (after piggyback and wage adjustments, see Workpaper UPS-Sellick-1-III-A, p. 1). If you do not confirm, please explain.

ii. Please confirm that subtracting the difference in the average weight-related nontransportation costs for flats and parcels (\$0.0928) (UPS-T-4, p. 44) results in a supposed unaccounted-for cost differential between flats and parcels of \$0.0337. If you do not confirm, please explain.

c. For the following questions, assume that a parcel surcharge is imposed based on the purported unaccounted-for differential between flats and parcels of \$0.0337:

i. Please confirm that since the costs passed through the parcel surcharge would no longer be included in the base unit cost calculation, the resulting base unit cost for non-parcel Priority Mail would be less than the base unit cost if the surcharge was not imposed. If you do not confirm, please explain.

ii. Please confirm that the resulting per-piece cost for Priority Mail parcels (the base per-piece cost plus the parcel surcharge) would be less than \$0.0337

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greater than the Priority Mail per-piece transportation cost without a surcharge. If you do not confirm, please explain.

d. i. Please confirm that, historically, Priority Mail rates have been rounded to the nearest nickel. If you do not confirm, please explain.

ii. In view of this rounding, if the Postal Service costs are adopted, please explain why the Commission should adopt a parcel surcharge.

Response to NDMS/UPS-T2-1 (Redirected from witness Sellick). (a) Not confirmed. The non-transportation cost per piece (including markup and contingency) for Priority Mail in aggregate would be unchanged. Using the volume shares for parcels and flats in Priority Mail, the non-transportation cost per piece (including markup and contingency) for parcels and for flats would be derived. Based on my recommendation, the non-transportation cost per piece for parcels would be 10 cents higher than that for flats. The non-transportation cost per piece (including markup and contingency) for flats would then be used to design Priority Mail rates. All parcels would receive a 10 cents per piece surcharge.

(b)(i) Confirmed.

(ii) Not confirmed. To perform the calculation in this manner, one should remove the contingency and mark-up (which are artifacts of the rate design process) from the non-transportation weight-related cost. This would leave 8.01 cents per piece in unaccounted for costs.

(c)(i) Confirmed. See my response to (a).

(ii) The transportation costs for Priority Mail range from \$0.374 per pound to \$1.129 per pound, according to USPS-330. Without further specification of weight and zone, I am unable to say one way or the other how the transportation cost for any particular piece compares to the per piece cost.

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If the word transportation was not meant to be in the question, then the answer is not confirmed. The cost per piece for parcels would be 3.37 cents per piece above that of non-parcel shaped Priority Mail after the adjustment.

(d)(i) Confirmed.

(ii) If the Postal Service's costs are adopted, then I recommend that the surcharge be set at five cents per piece by rounding the surcharge to the nearest nickel. This would also better reflect that there are 8.01 cents of unaccounted for cost differences between Priority Mail parcels and Priority Mail flats.

DECLARATION

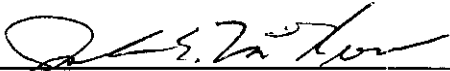
I, Ralph L. Luciani, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.

Ralph L. Luciani
Ralph L. Luciani

Dated: February 10, 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with section 12 of the Commission's Rules of Practice.



John E. McKeever

Dated: February 11, 1998
Philadelphia, PA